

August 16, 2007

OIL AND GAS DOCKET NO. 03-0252554

APPLICATION OF MAGNUM PRODUCING, L.P. TO CONSOLIDATE VARIOUS SEALY FIELDS AND ADOPT FIELD RULES INTO THE PROPOSED SEALY (WILCOX CONS.) FIELD, AUSTIN COUNTY, TEXAS

HEARD BY: Thomas H. Richter, P.E.

DATE OF HEARING: August 15, 2007

APPEARANCES:

Applicant:

Dale E. Miller

REPRESENTING:

Magnum Producing, L.P.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the untested application of Magnum Producing for the Commission to consider consolidating 12 fields (see Attachment "A") into a new field to be known as the Sealy (Wilcox Cons.) Field. It is proposed that the following field rules be adopted:

1. The entire combined correlative interval from 8,942' to 12,000' as shown on the Dual Induction-Laterolog-Sonic Log, of the Ranger Oil Company, Lieberman Lease Well No. 1 (API No. 42-015-30273), Austin County, Texas should be designated as the Sealy (Wilcox Cons.) Field.
2. Minimum well spacing of 467' (leaseline) and no between well spacing and only 40 acre drilling units;
3. An allocation formula based on 95% deliverability and 5% per well for gas wells and salvage classification for any oil wells. It is proposed that the allocation formula for gas wells be suspended.

The notice of hearing that was issued with a docket number of 7C-0252554, however, the information provided in the notice clearly indicated the correct county and field names. The examiner recommends approval of the field consolidation and proposed field rules.

DISCUSSION OF THE EVIDENCE

The subject fields were discovered between 1942 and 2005. Four of the fields have special field rules. Only the Sealy (Newsome) Field is listed as associated, however, there has only been one well ever placed in the "oil" field and it was later re-classified as gas. Currently, there are only

11 producing wells in the field and four of the fields have no wells.

The entire combined correlative interval from 8,942' to 12,000' as shown on the Dual Induction-Laterolog-Sonic Log, of the Ranger Oil Company, Lieberman Lease Well No. 1 (API No. 42-015-30273), Austin County, Texas should be designated as the Sealy (Wilcox Cons.) Field. The entire gross interval is a series of stacked Wilcox Formation Sands of similar reservoir characteristics. The area is highly faulted with several of the "fields" being called by different field names because of being located in a different fault block.

Consolidation of the subject 12 fields will provide for the recovery of reserves that otherwise would go unrecovered. All the fields are intermingled and are heterogeneous (porosity, permeability and thickness) and are lenticular from well to well over short distances. Many of the sand stringers are not stand alone economic producing sands. Completion costs will be reduced. There are numerous potentially productive horizons to be produced, but without the consolidation of the fields and the freedom to produce multiple reservoirs simultaneously, reserves could be left in the ground, un-recovered, as the economics may not justify individual completions. The expanded correlative interval will allow completion of wellbores in all of the productive sand accumulations during initial completion operations. The cost of drilling, completing and stimulating a wellbore drilled for the deepest reservoir of the correlative interval is approximately \$2,168,000. Downhole commingling the production from all reservoirs during the initial completion will reduce capital expenditures by approximately \$30,000 per individual reservoir. By reducing capital expenditures, the recovery factor for each well will increase, thereby allowing for recovery of additional reserves and minimizing waste. In addition, by allowing multiple reservoirs to be simultaneously produced, the economic limit is lowered for each of the individual reservoirs thereby enhancing recovery and preventing waste of recoverable reserves. It is estimated that an additional 32.7 MMCF will be recovered per two completions.

Three of the fields have cumulative production of less than 500 MMCF; 3 of the fields have cumulative production between 500 MMCF and 1 BCF; 3 fields have cumulative production between 1 and 5 BCF; 2 fields have cumulative production between 5 and 10 BCF; and 1 field with cumulative production in excess of 10 BCF. The reservoirs are in the late stages of development, and there are still remaining reserves left to secure. The fields all appear to be in the salvage stage of depletion and Magnum Producing, LP is attempting to secure the remaining reserves in as economic a manner as possible. The total cumulative production from all of the fields is 89.9 BCF. Because of the maturity level of the fields, and to be able to economically recover the remaining recoverable reserves, flexibility is needed to downhole commingle the production to increase the economic viability of completing the wells and also to provide additional incentive to drill development wells.

The minimum lease line spacing of 467' will provide flexibility in locating wells in the field. Elimination of between well spacing is necessary to utilize existing wellbores in completing in various zones. Proration unit designation is not required in a field area that is near final depletion and the acreage assignable to a well is not representative of the area to be drained and acreage is not a factor in the proposed allocation formula.

The Sealy (Wilcox Cons.) Field should be classified as Associated-Prorated and not subject to 49(b) allocation. An allocation formula for gas wells based on 95% deliverability and 5% per well meets the statutory requirements of a multi-factor allocation formula. The allocation formula should be suspended as there is market for 100% of the produced gas. For oil well(s) that are completed, the allowable should be exempt from limitation (classify the field as "Salvage") and should therefore be designated as whatever the well's capacity to produce.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators in the subject field at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The subject fields were discovered between 1942 and 2005.
 - a. Four of the fields have special field rules.
 - b. The Sealy (Newsome) Field is listed as associated.
 - c. Currently, there are only 11 producing wells in the field and four of the fields have no wells.
4. The entire combined correlative interval from 8,942' to 12,000' as shown on the Dual Induction-Laterolog-Sonic Log, of the Ranger Oil Company, Lieberman Lease Well No. 1 (API No. 42-015-30273), Austin County, Texas should be designated as the Sealy (Wilcox Cons.) Field.
 - a. The entire gross interval is a series of stacked Wilcox Formation Sands of similar reservoir characteristics. The area is highly faulted with several of the "fields" being called by different field names because of being located in a different fault block.
5. Consolidation of the subject 12 fields will provide for the recovery of reserves that otherwise would go unrecovered.
 - a. The fields to be consolidated are both oil and gas and all the fields are intermingled as these are a series of various stacked Wilcox Formation sands that are heterogeneous (porosity, permeability and thickness) and are lenticular from well to well over short distances.
 - b. Many of the sand stringers are not stand alone economic producing sands.
 - c. Completion costs will be reduced and there are numerous potentially productive horizons to be produced, but without the consolidation of the fields and the freedom

to produce multiple reservoirs simultaneously, reserves could be left in the ground, un-recovered, as the economics may not justify individual completions.

6. The minimum lease line spacing of 467' will provide flexibility in locating wells in the field. Elimination of between well spacing is necessary to utilize existing wellbores in completing in various zones. Proration unit designation is not required in a field area that is near final depletion and the acreage assignable to a well is not representative of the area to be drained and acreage is not a factor in the proposed allocation formula.
7. The Sealy (Wilcox Cons.) Field should be classified as Associated-Prorated and not subject to 49(b) allocation.
 - a. An allocation formula for gas wells based on 95% deliverability and 5% per well meets the statutory requirements of a multi-factor allocation formula.
 - b. The allocation formula should be suspended as there is market for 100% of the produced gas.
 - c. For oil well(s) that are completed, the allowable allocation should be exempt from limitation (classify the field as "Salvage") and should therefore be designated as whatever the well's capacity to produce.

CONCLUSIONS OF LAW

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Consideration for consolidation of fields and field rules, a determination of the effectiveness of the rules and appropriate actions is a matter within the Commission jurisdiction.
4. Adoption of the proposed consolidation of fields and adoption of the proposed field rules will prevent waste, foster conservation and protect correlative rights.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends approval of the proposed field consolidation and field rules for the Sealy (Wilcox Cons.) Field.

Respectfully submitted,

Thomas H. Richter, P.E.
Technical Examiner
Office of General Counsel

ATTACHMENT “A”

<u>FIELD NAME</u>	<u>FIELD NUMBER</u>	<u>TYPE FIELD</u>
Sealy (Newsome)	81948125	Oil & Gas
Sealy (Wilcox A-4)	81948200	Gas
Sealy (Wilcox J-2)	81948480	Gas

Sealy (Wilcox K)	81948500	Gas
Sealy (Wilcox L)	81948510	Gas
Sealy (Wilcox M-2)	81948625	Gas
Sealy (Wilcox 8700)	81948875	Gas
Sealy (Wilcox 8800)	81948900	Gas
Sealy (Wilcox 10,400)	81948915	Gas
Sealy (Wilcox 10700)	81948925	Gas
Sealy (Wilcox 10700, South)	81948930	Gas
Sealy (Wilcox 10,800)	81948950	Gas